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**Ultramar's Big U.S. Expansion Plans**
**Why Calif. Jobber Opts for Big Markets**
**Quick Lubes Update: Poised for Growth**

NPN
National Petroleum News

# STATION RENTAL REVOLUTION

## What It Means to Oil Marketing

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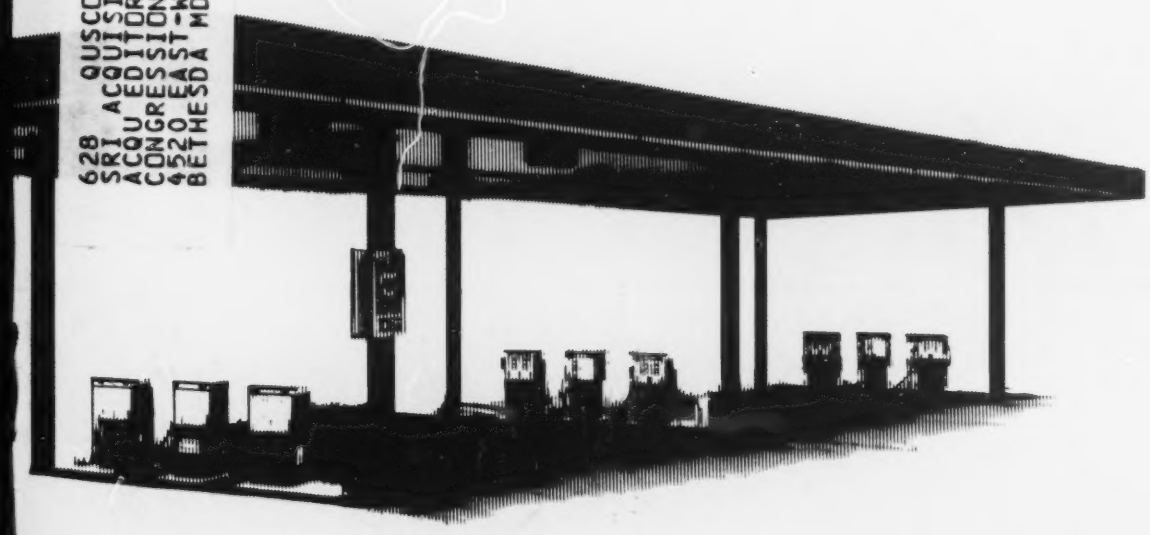

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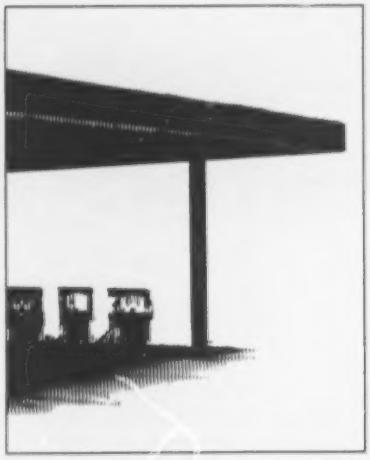


Extreme competition and price-cutting in gasoline markets has spilled over into station rentals—in the form of rent reductions based on gallonage. Thinly disguised to make dealers more aggressive, such formulas are a trend. **Page 38**

**Cover design by Marcus Design, Inc., Chicago; photo by Thomas Olson**

While some marketers dispised decontrol, Bob Rinehart says it helped triple his volume since 1981 as he was freed to emphasize marketing again. **Page 56**

Sleeping son of a British giant, American Ultramar is working hard on a widescale blueprint to plant itself as a formidable motor and heating fuel marketer on East and West Coasts. **Page 48**

# • TRENDS

## What's Going on with OPEC? Will Crude Prices Plummet?

**The once-mighty Organization of Petroleum Exporting Countries (OPEC) appears to be losing its ability to dictate world crude oil prices. If so, say various analysts, this could lead to uncertainty and possibly chaos in both crude and product pricing in coming months.**

The possibility that the OPEC cartel is losing control of pricing has caused some to suggest that the domestic industry might have to be "protected" from "low-cost" foreign oil.

Such talk, last heard in the 1950s and 1960s, might seem unreal, considering the panic days of the 1970s when OPEC seized control of its oil and international pricing, driving prices up ten-fold or more and causing what some economists have since described as the greatest transfer of wealth in the history of the world.

Has OPEC really lost its clout? Can it no longer dictate what the world price for oil will be? Or, is the free market now determining this? If the cartel has lost control, what's likely to happen next?

Most industry analysts who study such things say that OPEC's ability to call the shots on international oil prices has, indeed, been weakened because much more crude is being traded in the "spot" or free market today than in the panic days of the 1970s.

From the early to the late Seventies, when free world demand for oil products was at times exceeding production, probably less than 5% of total world crude sales occurred in the spot market. In addition, the free-trading of this small amount was usually done at prices exceeding OPEC's "official" postings.

Currently, some sources estimate that perhaps from half to two-thirds of the oil sold globally is transferred at "free-market" prices which usually undercut what OPEC says is its official benchmark price.

OPEC has tried to keep control of pricing by jawboning with its 13 member countries to reduce production while also gradually reducing its "official" price. It has also threatened price wars to stop non-cartel member countries from getting too greedy over market share. None of this has seemed to work very well so far.

Some analysts now paint OPEC as a somewhat toothless tiger in the international jungle of oil pricing. Indeed, some of its own members seem to think so. The poetic oil minister of the United Arab Emirates, Manei Saeed al Otaiba, says the cartel, "after the days of luxury, has become a lamb in the midst of the jungle." Like a gang, he says, "the wolves of the market swirl around us."

One of his colleagues, however, Saudi Arabia's smooth and poised Harvard-educated minister, Ahmad Zaki Yamani, has indicated a willingness to do a little jungle fighting, if necessary. The Saudis, suggests Yamani, may start a little price war as "shock therapy" to bring back some "discipline" among both members and non-members of the cartel.

Just how much weaker, financially, the OPEC cartel may be at the present time as compared to its heyday of the 1970s is open to speculation. One analyst, Marion B. Stewart of Andover, Conn., suggests that others who believe the cartel members are in dire financial straits may be wrong. The U.S. dollar's strength, writes Stewart in a newsletter he publishes, *Stewart Energy Outlook*, has given the cartel "the financial muscle needed to sustain a long period of reduced oil demand."

Although nearly half of OPEC's productive capacity is currently shut down as part of its effort to shore up prices, writes Stewart, the OPEC countries' real revenues are "higher than they were six years ago" before their last sharp boost in their "official" prices.

Even with the strong dollar, though, the cartel members have seen their oil revenues plummet since 1981. According to some estimates, OPEC's total oil income shrunk nearly $100-billion between 1981 and 1984, or more than one-third its total 1981 revenues of $247.6-billion.

That's quite a bit of change to lose, even for OPEC, so most analysts think Saudi Arabia's Yamani probably isn't bluffing with his price war threats. If he should try his "shock therapy," some analysts say they wouldn't be surprised to see oil prices drop as low as $10 bbl. in the chaos that would result. *—Marvin Reid*

# • MARKETPLACE AT A GLANCE

### AVERAGE GASOLINE PRICES IN THE U.S. (¢ per gal.)

| JANUARY | Gasoline (All types) | Leaded Regular | Unleaded Regular | Unleaded Premium |
|---|---|---|---|---|
| U.S. City Avg. | $1.145 | $1.060 | $1.148 | $1.304 |
| Regions: | | | | |
| Northeast | 1.170 | 1.080 | 1.157 | 1.297 |
| North Central | 1.130 | 1.063 | 1.148 | 1.298 |
| South | 1.132 | 1.040 | 1.130 | 1.303 |
| West | 1.155 | 1.066 | 1.164 | 1.322 |

*Source: U.S. Dept. of Labor, Bureau of Labor Statistics.*

### STOCKS (Add 000 bbl.)

| | 3/1/85 | 3/2/84 |
|---|---|---|
| Gasoline (total) | 226,807 | 235,579 |
| Gasoline (unleaded)* | 107,394 | 97,284 |
| Jet Kerosine | 34,755 | 33,179 |
| Distillates | 123,288 | 129,550 |
| Residual | 47,079 | 52,382 |

**Included in gasoline total.*
*Source: American Petroleum Institute.*

they're a big company," says one jobber. Another chose to go indepependent rather than deal with Texaco. "I just didn't like their attitude and they seemed to be dragging their feet a little too," says the marketer, who's been buying from area brokers at the lowest prices since last August.

He claims that he can buy Texaco product from the brokers at 1.5¢ gal. less than buying from Texaco direct.

Colorado Petroleum Marketers Assn. president Don Morrison waxes philosophical over the Getty to Texaco transition. "Nobody's ever comfortable with change, and I'm sure some will lose out and some will come out ahead. It's just especially tough when you lose a good supplier."

# Iowa Markets Deemed Fertile Enough For Suppliers to Seek Getty Jobbers

With the nation's attention sharply focused on the plight of America's farmers, jobbers attending the Petroleum Marketers of Iowa convention in February were encouraged to hear that all was not bleak for their farm customers.

Jobbers affected by the Texaco/Getty merger also found themselves being wooed by not only Texaco but a few other suppliers looking to make inroads into the Iowa motor fuel market.

PMI officials were jubilant over the record 1,300 attendance for this year's convention and trade show. Next year's promises to be even bigger when it is moved to a new show arena. Space restrictions at the Marriott limited the number of exhibitors to 57, and 20 companies were turned away, PMI officials said.

Earl Butz, Secretary of Agriculture under Presidents Nixon and Ford, told the convention that while the news media has spotlighted the plight of farmers facing bankruptcy, the majority of farmers in America are doing as well as ever.

He prefers that the country move toward "a market-oriented program for farmers," with minimum use of crop set-aside programs. "Either we become competitive and move toward market-oriented prices, or we shrink our (agricultural) production plant back to our domestic market," he said. The overflow crowd attending the speech gave the outspoken Butz a resounding ovation at the conclusion of his remarks.

"That man really knows what it's like out here," commented one rural Iowa jobber at the conclusion of Butz's speech. "It's business as usual with my farm customers. My deliveries haven't slowed down, and I'm still giving them the usual 30 days credit," he said.

Another farm jobber however, was not so optimistic. "Sure, some (farmers) are having problems, and it's affected the way I do business with them. I had no choice but to go to c.o.d. I've had some difficulty with collections in the past few months, so what else could I do?" he said.

The fact that a variety of supplier companies are interested in Iowa was clear from the well-attended brand meetings and lavish hospitality suites.

Marketing reps from Texaco sought to soothe concern about supply contracts for Getty jobbers and to make brand transitions go as smoothly as possible. Most Getty jobbers were said to be taking advantage of Texaco's March 1 deadline for supply contracts being offered.

In addition, Citgo Petroleum reps were targeting some 20 Getty jobbers with a sales pitch that involved free paint and signage for an indefinite amount of time. A sales rep for the Southland Corp. unit said Citgo was looking to make a comeback as a branded supplier in Iowa after an absence of more than 10 years.

Union Oil, Koch Fuels and Western Petroleum also were frequently mentioned as suppliers actively courting Iowa Getty jobbers.

The general mood at the convention was decidedly upbeat and jobbers seemed to be pleased with their role as sought-after customers. "It's kind of nice to be the center of all this attention," commented one formerly-unbranded jobber who recently signed up with a new supplier.

## Most Ohio jobbers favor below-cost selling bill: survey

Legislation banning below-cost sales would be supported by nearly 75% of the oil jobbers in Ohio, according to a recent membership survey by the Ohio Petroleum Marketers Association.

According to the OPMA survey, not only do 73% of the state's jobbers favor legislation prohibiting below-cost selling, 43% feel such legislation should get top priority of the nine jobber-oriented issues covered in the survey.

Conducted during November and December 1984, the OPMA survey generated 115 responses, slightly more than half the total OPMA membership. Respondents were classified on the basis of annual volume as either small (5-million gal./yr. or less), 31.2% of total surveyed; medium (5- to 10-million gal./yr.), 39.4%; or large (10-million gal./yr. or more), 29.4%.

The issues covered in the survey tended to overlap somewhat, but included most of those of prime importance to the marketer: below-cost selling, minimum markup, divorcement, divestiture, refiner direct-operations, open supply, alcohol labeling on manifests and pumps, repeal of alcohol fuel tax exemptions, and a free market approach to industry problems.

| Issue | Favor | Oppose |
|---|---|---|
| Below-Cost | 73.4% | 13.8% |
| Alcohol Labeling | 71.6 | 11.0 |
| Minimum Markup | 56.0 | 19.3 |
| Divorcement | 54.1 | 21.1 |
| Divestiture | 52.2 | 28.4 |
| Repeal Alcohol Fuel Tax Credits | 50.5 | 26.6 |
| Limit Refiner Direct-Operations | 41.3 | 27.5 |
| Free Market | 41.3 | 33.0 |
| Open Supply | 37.6 | 36.7 |

Note: some respondents were undecided—percentages do not total 100%.

The survey questionnaire defined below-cost selling as offering a product at retail for a price that is less than the cost of doing business. It cited Alabama's below-cost selling law as an example.

Minimum markup legislation, on the other hand, was defined as a specific percentage added to the cost of a product, and could be applied to both wholesale and retail sales.

The survey showed that small marketers generally favored legislative solutions to industry issues and opposed free market solutions, while the larger marketers leaned toward allowing the market to regulate itself.

Asked to comment, one small marketer said: "We are seeing pricing practices that are predatory in nature . . . they are coming from our own ranks and not the majors."

According to a mid-size jobber: "Since the major refiners won't clean up their act voluntarily, the free market will not solve the problem."

One large marketer expressed it this way: "The fewer regulations, the better. We do not feel you can improve on a competitive free market."

# DOE's Short-Term Energy Outlook: Basically Mediocre

**The federal Department of Energy, in its latest update on what's ahead for oil products and prices, says things aren't going to be as good as it originally anticipated.**

Last November, for example, DOE projected gasoline prices at an average of $1.20 gal. for the year 1985. Now, the agency believes gasoline prices will wind up around $1.18 gal. It also thought that distillate would average $1.10 gal. during the year. The new forecast is a disappointing $1.108.

There's a bit of good news in some aspects of the latest forecast, however. Demand for some products, notably distillate and resid, will be a bit stronger than the November forecast had projected.

But at the same time the gasoline picture isn't that bright. The forecast presently calls for an average of 6.67-million b/d, whereas in November it had been believed it would be reaching 6.75-million b/d. That's a significant reduction of 8,000 b/d.

Here's the new DOE forecast. [For prior data, see Jan. '85, page 38]:

| | 1983 | 1984 | | | | | 1985 | | | | | 1986 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Prices (Retail)** | Avg. | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | 4th Qtr. | Avg. | 1st Qtr. | 2nd Qtr. | 3rd Qtr. | 4th Qtr. | Avg. | 1st Qtr. | 2nd Qtr. |
| Motor Gasoline | $1.22 | $1.20 | $1.22 | $1.19 | $1.19 | $1.20 | $1.16 | $1.16 | $1.20 | $1.18 | $1.18 | $1.18 | $1.19 |
| Distillate Fuel Oil | 1.08 | 1.13 | 1.08 | 1.04 | 1.06 | 1.08 | 1.09 | 1.06 | 1.06 | 1.10 | 1.08 | 1.11 | 1.08 |
| Wholesale | 0.82 | 0.86 | 0.83 | 0.79 | 0.82 | 0.83 | 0.83 | 0.81 | 0.81 | 0.82 | 0.82 | 0.83 | 0.82 |
| Retail | 1.08 | 1.13 | 1.08 | 1.04 | 1.06 | 1.08 | 1.09 | 1.06 | 1.06 | 1.10 | 1.08 | 1.11 | 1.08 |
| Residual | 0.65 | 0.69 | 0.70 | 0.68 | 0.69 | 0.69 | 0.70 | 0.68 | 0.67 | 0.67 | 0.68 | 0.66 | 0.65 |
| **Supplies** (million b/d) | | | | | | | | | | | | | |
| Motor Gasoline | 6.62 | 6.34 | 6.88 | 6.86 | 6.75 | 6.71 | 6.42 | 6.96 | 6.88 | 6.75 | 6.75 | 6.36 | 6.86 |
| Leaded | 2.97 | 2.69 | 2.86 | 2.75 | 2.62 | 2.73 | 2.53 | 2.69 | 2.62 | 2.53 | 2.59 | 2.51 | 2.66 |
| Unleaded | 3.65 | 3.65 | 4.02 | 4.11 | 4.13 | 3.98 | 3.89 | 4.26 | 4.26 | 4.22 | 4.16 | 3.85 | 4.21 |
| Distillate Fuel Oil | 2.69 | 3.20 | 2.79 | 2.59 | 2.87 | 2.86 | 2.96 | 2.72 | 2.50 | 2.88 | 2.76 | 2.85 | 2.75 |
| Residual Fuel Oil | 1.42 | 1.74 | 1.30 | 1.22 | 1.21 | 1.37 | 1.61 | 1.18 | 1.15 | 1.31 | 1.31 | 1.62 | 1.15 |
| Other Products | 4.50 | 4.77 | 4.61 | 5.01 | 4.88 | 4.82 | 4.73 | 4.61 | 5.04 | 5.04 | 4.86 | 4.98 | 4.83 |
| Total Supplied | 15.23 | 16.06 | 15.58 | 15.67 | 15.71 | 15.75 | 15.72 | 15.46 | 15.58 | 15.99 | 15.69 | 15.80 | 15.59 |
| Total Imports | 5.05 | 5.41 | 5.51 | 5.20 | 5.44 | 5.39 | 5.01 | 5.40 | 5.41 | 5.28 | 5.28 | 4.90 | 5.43 |

**Source: Energy Information Administration, February 1985.**

# Premium Octanes Continue Steady Upward Climb

**The octane levels in premium unleaded gasoline showed a marked improvement last summer, in the quasi-official semi-annual study of motor fuels in all parts of the country.**

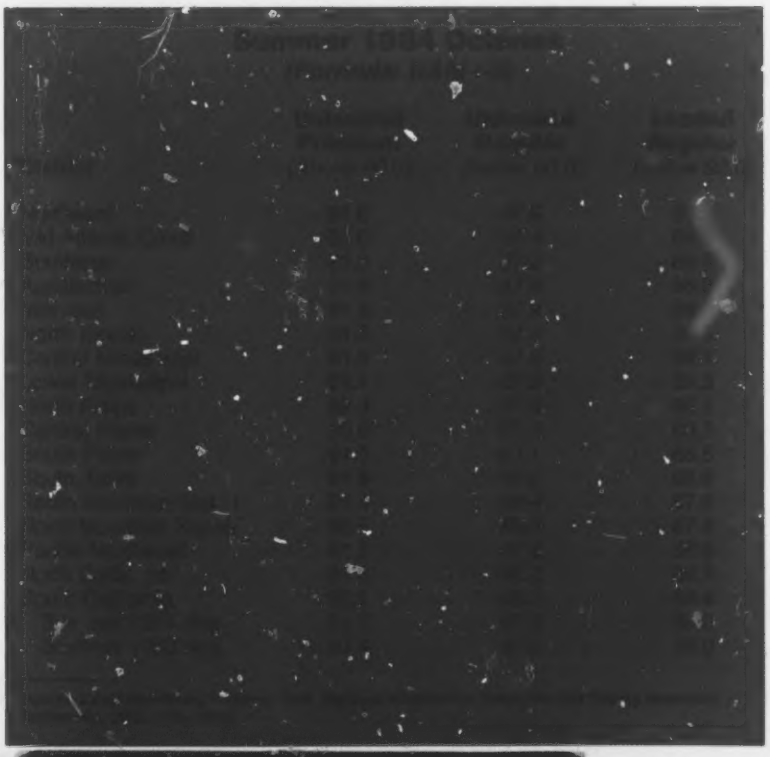
The octane level of premium unleaded rose to 91.7 octane, up three-tenths of one point over the summer of 1983 and equaling the previous all-time high set in the summer of 1982 [*NPN*—May '84, p27].

The study, released in mid-February, showed that the octane levels for unleaded regular and leaded regular were relatively static last summer.

The study is made by the National Institute for Petroleum and Energy Research, Bartlesville, Okla., which used to be the government's research center. The work is done under contract with American Petroleum Institute, with the research bureau handling all the data on a confidential basis.

Here are the findings:

| | Summer '84 | Winter '83-84 | Summer '83 | Winter '82-83 | Summer '82 |
|---|---|---|---|---|---|
| Unleaded Premium (Above 90.0 octane) | 91.7 | 91.3 | 91.4 | 91.5 | 91.7 |
| Unleaded Regular (Below 90.0 octane) | 87.3 | 87.3 | 87.5 | 87.3 | NA |
| Leaded Regular (Below 93.0 octane) | 89.0 | 88.8 | 89.0 | 89.1 | 89.0 |



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